

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

---

SECURITIES INVESTOR PROTECTION  
CORPORATION,

Plaintiff-Applicant,

Adv. Proc. No. 01-4257 RJK

v.

MJK CLEARING, INC.,

Defendant.

---

**TRUSTEE'S NINETEENTH INTERIM REPORT FOR THE  
PERIOD FROM APRIL 1, 2006 THROUGH JUNE 30, 2006**

TO THE HONORABLE ROBERT J. KRESSEL,  
UNITED STATES BANKRUPTCY JUDGE

James P. Stephenson, as trustee (the "Trustee") for the liquidation of MJK Clearing, Inc. (the "Debtor"), respectfully submits his Nineteenth Interim Report (this "Report") in accordance with the terms of this Court's Order entered on November 5, 2001 (the "Housekeeping Order"), and pursuant to Section 78fff-1(c) of the Securities Investor Protection Act of 1970 ("SIPA"), 15 U.S.C. § 78fff-1(c). This Report covers the period from April 1, 2006 through June 30, 2006 (the "Reporting Period").

**I. Introduction**

1. On September 27, 2001 (the "Filing Date"), pursuant to Section 78eee(a)(3) of SIPA, the Securities Investor Protection Corporation ("SIPC") filed a Complaint and Application in the United States District Court for the District of Minnesota (the "District Court") alleging, among other things, that the Debtor failed to meet its

obligations to customers and that the Debtor's customers were in need of the protections provided by SIPA.

2. On the Filing Date, the Honorable Richard H. Kyle, Judge of the District Court, entered an Order Commencing SIPA Liquidation Proceeding (the "Protective Order"), which, among other things, determined that the Debtor's customers were in need of the protections afforded by SIPA, commenced the liquidation proceeding, appointed the Trustee as the trustee for the liquidation of the Debtor, appointed Faegre & Benson LLP ("Faegre & Benson") as counsel for the Trustee, stayed certain actions in connection with the Debtor and its property, and removed the liquidation proceeding to this Court.

## **II. Background**

3. Prior to its demise, the Debtor, a member of SIPC and a broker-dealer registered with the Securities and Exchange Commission, was engaged in the business of acting as a clearing firm for stock and other securities transactions. The Debtor was a clearing firm for its wholly owned subsidiary, Miller Johnson Steichen Kinnard, Inc. ("MJSK"), and sixty-four other independent, non-affiliated introducing firms (the "Outside Introducing Firms"). The Debtor cleared trades for approximately 175,000 individual account holders (the "Customers") as clearing agent for MJSK and the Outside Introducing Firms.

4. Prior to filing this Report, the Trustee filed with this Court quarterly interim reports for the periods ending as of December 31, 2001; March 29, 2002; June 27, 2002; September 30, 2002; December 31, 2002; March 31, 2003; June 30, 2003; September 30, 2003; December 29, 2003; March 31, 2004; June 30, 2004; September 30, 2004; December 31, 2004; March 31, 2005; June 30, 2005; September 30, 2005; December 31,

2005; and March 31, 2006 (these reports collectively, the “Prior Reports”). For a detailed description of all matters and activities in the Debtor’s liquidation proceeding occurring prior to April 1, 2006, see the Prior Reports.

### **III. Administration of the Estate**

#### **A. Trustee’s Staff**

5. The Trustee has employed the following firms and individuals to assist the Trustee in his duties concerning the orderly liquidation of the Debtor’s estate and the satisfaction of customer claims: Faegre & Benson, Financial Industry Technical Services, Inc. (“FITS”), PricewaterhouseCoopers LLP (“PWC”), International Investigations (“International”), Foley & Lardner LLP (“Foley”), Borden Ladner Gervais LLP (“BLG”), Greenbaum, Rowe, Smith, Ravin, Davis & Himmel, LLP (“Greenbaum”), and Ronald E. Pump of The Law Firm of Mohamed Al-Sharif (“Pump”; collectively, with FITS, PWC, International, Foley, BLG, and Greenbaum, the “Trustee’s Staff”). As described in the Prior Reports and herein, the Trustee’s Staff assists the Trustee in the performance of assorted functions germane to the liquidation proceeding, including, but not limited to, facilitating customer account transfers; evaluating the estate’s assets, including claims on behalf of the estate; investigating the Debtor’s practices; processing, analyzing, and resolving customer claims; representing the Trustee in litigation; and providing legal advice to the Trustee.

#### **B. Trustee’s Activities**

6. Through March 31, 2006, the Trustee oversaw the matters described in the Prior Reports. During the period from April 1, 2006 through June 30, 2006, the Trustee has taken or overseen the actions described below.

#### **IV. Claims**

7. As of June 30, 2006, the Trustee had received a total of 26,951 Customer claims. The Trustee delivered determination letters to 26,897 Customer claimants. In addition, the Trustee resolved 54 customer claims filed by parties who made secured demand notes to the Debtor (“Secured Demand Noteholders”) pursuant to a settlement approved by the Bankruptcy Court on February 12, 2003.

8. With respect to the 26,897 Customer claims for which determination letters were delivered, this Court and the Trustee received 99 objections or responses to the determination letters. Each of the objections and responses have been resolved, either by order of this Court, through the claimant’s withdrawal of the objection, or by the Trustee’s providing additional information to the claimant. Accordingly, all customer claims have been resolved.

9. The Trustee received a total of 147 claims<sup>1</sup> from claimants other than Customers<sup>2</sup>. In addition, the Court allowed 8 claims originally filed as customer claims as general estate claims, for a total of 155 claims from claimants other than Customers.

10. As of June 30, 2006, of the 155 general estate claims from claimants other than Customers, 113 were allowed or allowed in part, 33 were disallowed, 5 were withdrawn by the claimants, and 4 remained unresolved.<sup>3</sup> As of June 30, 2006, the Trustee

---

<sup>1</sup> This Report covers the Reporting Period until June 30, 2006. On July 20, 2006, the Internal Revenue Service filed a claim against the estate for \$3,054,897.42. The Internal Revenue Service’s claim is not included in these amounts because it was filed after the Reporting Period.

<sup>2</sup> The Secured Demand Noteholders originally filed Customer claims. As a result of the settlement that was approved by this Court on February 12, 2003, these claims have been included in the calculation of the number of claims from claimants other than Customers.

<sup>3</sup> The Trustee continues to review the general estate claims filed in this case. Accordingly, this number may be revised.

had distributed \$31,063,756.68 in principal and \$3,636,400.41 in interest on account of 106 of the allowed general estate claims.

11. The aggregate dollar amount of claims in which the claimant has agreed to a settlement that still must be approved by the Court is \$47,313.44. The filed or disputed amount of the 4 unresolved general estate claims is \$1,448,133.40. Seven of the allowed general estate claimants with claims of \$1,569,411.32 had not returned requested tax documentation as of June 30, 2006, and therefore had not received their distributions. Upon receipt of proper tax documentation, the remaining allowed general estate claimants will receive the allowed amounts of their claims.

## **V. Trustee's Investigation**

12. SIPA requires the Trustee "to investigate the acts, conduct, property, liabilities, and financial condition of the debtor, the operation of its business, and any other matter, to the extent relevant to the liquidation proceeding, and report thereon to the court." 15 U.S.C. § 78fff-1(d).

13. A significant portion of the results of the Trustee's investigation is reflected in the Trustee's complaint against Deutsche Bank AG and various related parties, which complaint and resulting settlement are discussed in detail in Paragraphs 18 through 21 of this Report.

## **VI. Pending Litigation**

14. Upon the entry of the Protective Order, all litigation against the Debtor was automatically stayed pursuant to Section 362 of the Bankruptcy Code. The Trustee is currently engaged in the matters described below.

**A. Native Nations**

15. As previously reported in the Prior Reports, the Trustee obtained a judgment against Native Nations Securities, Inc. (“Native Nations”) on June 12, 2002, in the amount of \$209,774,551.59.

16. On August 19, 2002, an involuntary Chapter 7 bankruptcy petition was filed against Native Nations in the United States Bankruptcy Court for the District of New Jersey. On January 24, 2003, the Court entered an order for relief against Native Nations. On February 14, 2003, the Court appointed a Chapter 7 Trustee to oversee the liquidation of Native Nations’ assets.

17. The Trustee has filed claims in the Native Nations’ bankruptcy case totaling approximately \$226,000,000 (the “Native Nations Claims”). The Trustee and his counsel continue to monitor Native Nations’ bankruptcy case and work with Native Nations’ Chapter 7 Trustee and his counsel to maximize the Trustee’s recovery on the Native Nations Claims. The Trustee believes that he will recover approximately \$3,000,000 on the Native Nations Claims, sometime before the end of 2006.

**B. Deutsche Bank AG, et al.**

18. On September 19, 2002, the Trustee filed a complaint commencing an adversary proceeding (Adv. No. 02-4178) (Bankr. D. Minn. 2002) against Deutsche Bank AG and various other parties (as subsequently amended, the “Deutsche Complaint”). On December 18, 2002, this Court entered an Order transferring the case to the District Court (Court File No. 02-CV-4845). The case is currently pending before Judge Kyle.

19. On June 26 and 27, 2006, the Trustee participated in a settlement conference with Defendants GenesisIntermedia, Inc., Richard Evangelista, and Bradford

Keiller before Magistrate Judge Boylan. The Settlement Conference will continue on August 16, 2006.

20. On July 6, 2006, upon request of the parties, Judge Kyle issued an Order extending the Court's jurisdiction to October 1, 2006.

21. On July 10, 2006, the Trustee filed a motion for default judgment against Defendants Kenneth D'Angelo, RBF International, Inc., GenesisIntermedia, Inc., Ramy El-Batrawi, Ultimate Holdings, Ltd., and Adnan Khashoggi, which is currently scheduled to be heard by Judge Kyle on August 22, 2006.

**C. Greenblatt, et al.**

22. In addition to those adversary proceedings stemming from margin loan accounts described below and in the Prior Reports, the Trustee filed a complaint on February 24, 2003, commencing an adversary proceeding (Adv. No. 03-4053) (Bankr. D. Minn. 2003) against Leon A. Greenblatt, Banco Panamericano, Inc., Loop Corp., Nola L.L.C., and Repurchase Corp. (collectively, the "Greenblatt Defendants") seeking to collect more than \$6,800,000 pursuant to margin loan agreements, promissory notes, and a guaranty.

23. In October 2003, this Court entered a judgment awarding the Trustee more than \$4,500,000 from several of the Greenblatt Defendants, as well as \$3,000,000 worth of tax credits and \$114,986.93 in attorneys' fees and expenses. The Greenblatt Defendants filed an appeal with the District Court. On appeal, the District Court upheld this Court's decision, but reduced the amount of the monetary judgment by \$3,000,000.

24. The Greenblatt Defendants filed an appeal challenging the District Court's determination that the promissory notes and guaranty were supported by consideration. Following a briefing and argument of the issues on appeal, the United States

Court of Appeals for the Eighth Circuit entered an order upholding the decision of the District Court.

25. Currently, the Trustee is proceeding with collection efforts in Illinois with the assistance of Foley.

#### **D. Margin Loans**

26. As described in the Prior Reports, the Trustee commenced numerous adversary proceedings seeking the turnover and a judgment for monies owed to the Debtor on account of margin loans. During the last quarter, as part of his collection actions, the Trustee has continued to pursue an action against Robert Hill (Adv. Proc. No. 05-4291) (Bankr. D. Minn. 2005), which action is currently scheduled for trial on July 14, 2006.

#### **VII. Trustee's Accounting**

27. Through June 30, 2006, the Trustee requested, and obtained from SIPC, advances in the amount of \$201,039,816.42. The entire amount advanced by SIPC has been repaid, plus interest (in the amount of \$11,294,487.78). The amounts previously advanced by SIPC were used primarily to purchase securities for Customer accounts, but also used to pay administrative expense claims and other expenses incurred by the Trustee.

28. As of June 30, 2006, the Trustee had investments valued at \$21,933,367.53 in U.S. treasuries and FDIC-insured deposits through Wells Fargo Bank, National Association's Corporate Trust department. In addition, the Trustee had \$150,532.17 on deposit in a bank account with Wells Fargo Bank, National Association.

29. The foregoing represents a summary of the material events that have occurred from April 1, 2006 through June 30, 2006.



Dated: August 2, 2006

/e/ Theresa H. Dykoschak  
Stephen M. Mertz (#212131)  
Theresa H. Dykoschak (#0349999)  
FAEGRE & BENSON LLP  
2200 Wells Fargo Center  
90 S. Seventh Street  
Minneapolis, MN 55402-3901  
Phone # (612) 766-7000  
Fax # (612) 766-1600

Attorneys for James P. Stephenson,  
as trustee for the liquidation of  
MJK Clearing, Inc.

M1:1334723.02

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

---

SECURITIES INVESTOR PROTECTION  
CORPORATION,

Plaintiff-Applicant,

Adv. Proc. No. 01-4257 RJK

v.

MJK CLEARING, INC.,

Defendant.

---

**UNSWORN CERTIFICATE OF SERVICE**

I, Diane E. Piechocki, declare under penalty of perjury that on the 2nd day of August, 2006, I served the annexed **Trustee's Nineteenth Interim Report for the Period from April 1, 2006 through June 30, 2006**, and this **Unsworn Certificate of Service** on the persons listed on the attached list by placing a copy thereof in an envelope and arranging for the deposit of same, postage prepaid, in the United States Mails at Minneapolis, Minnesota.

Dated: August 2, 2006

/s/ Diane E. Piechocki  
Diane E. Piechocki

## SERVICE LIST

<p>Ted S. Meikle Meikle Law Firm 90 South 7th St., Suite 4700 Minneapolis, MN 55402 Phone: (612) 336-7710 Fax: (612) 339-6686 E-mail: ted@meiklelawfirm.com</p>	<p>MJK Clearing, Inc. c/o Todd Miller Miller Johnson Steichen &amp; Kinnard 60 South Sixth Street Minneapolis, MN 55402 Phone: (612) 455-5555 Fax: (612) 455-5600</p>
<p>The Stockwalk Group, Inc. James L. Baillie Clinton E. Cutler Fredrikson &amp; Byron Suite 4000 200 South Sixth Street Minneapolis, MN 55402-3397 Phone: (612) 347-7000 Fax: (612) 347-7077</p>	<p>Securities Investor Protection Corporation c/o Ken Caputo 805 Fifteenth Street, N.W. Suite 800 Washington, D.C. 20005-2207 Phone: (202) 371-8300 Fax: (202) 371-6728</p>
<p>Bryon Bequette MathStar, Inc. 5900 Green Oak Drive Minneapolis, MN 55343 Phone: (952) 746-2200 Fax: (952) 746-2201 E-mail: bryon.bequette@mathstar.com</p>	<p>Mark C. McCullough The Colonnade Suite 730 5500 Wayzata Boulevard Minneapolis, MN 55416 Phone: (763) 545-0833 Fax: (763)-545-0834</p>
<p>Henry F. Minnerop, Esq. Sidley Austin Brown &amp; Wood 787 Seventh Avenue New York, NY 10019 Phone: (212) 839-5300 Fax: (212) 839-5599</p>	<p>Terence M. Fruth Thomas E. Jamison Fruth, Jamison &amp; Elsass, P.A. 3902 IDS Center 80 South Eighth Street Minneapolis, MN 55402 Phone: (612) 344-9700 Fax: (612) 344-9705</p>

Investment Centers of America c/o James L. Simon Jackson National Life Insurance Co. 1 Corporate Way Lansing, MI 48951 Phone: (517) 702-2468	Wells Fargo Bank, N.A. c/o Mark J. Kalla Bruce A. MacKenzie Dorsey & Whitney LLP Suite 1500 50 South Sixth Street Minneapolis, MN 55402-1498 Fax: (612) 340-2643 E-mail: kalla.mark@dorseylaw.com
Mr. James K. Langdon II Dorsey & Whitney LLP Suite 1500 50 South Sixth Street Minneapolis, MN 55402-1498 Phone: (612) 340-8759 Fax: (612) 340-8800 E-Mail: langdon.jim@dorseylaw.com	Stephen D. Lerner Squire, Sanders & Dempsey L.L.P. 312 Walnut Street Suite 3500 Cincinnati, OH 45202 Phone: (513) 361-1220 Fax: (513) 361-1201 E-mail: slerner@ssd.com
Sonia U. Chae Securities & Exchange Commission 175 W. Jackson Blvd., Suite 900 Chicago, IL 60604 Phone: (312) 353-7390	Teri M. Swanson Securities and Exchange Commission 450 Fifth Street, N.W. (mail stop 6-6) Washington, D.C. 20549-0606 Phone: (202) 942-0956 Fax: (202) 942-9625
Native Nations Securities, Inc. c/o Proskauer Rose LLP Attn: Michael E. Foreman, Esq. Peter J.W. Sherwin, Esq. 1585 Broadway New York, NY 10036-8299 Phone: (212) 969-3000 Facsimile: (212) 969-2900	The Stockwalk Group, Inc. c/o Leonard, Street and Deinard Steven D. DeRuyter Larry B. Ricke 150 S. Fifth St., Suite 2300 Minneapolis, MN 55402 Phone: (612) 335-1500 Facsimile: (612) 335-1657
Pax Clearing Corporation c/o Stephen P. Bedell Foley & Lardner 321 North Clark, Suite 2800 Chicago, IL 60610 Phone: (312) 832-4500 Facsimile: (312) 832-4700	Pax Clearing Corporation c/o Paul L. Ratelle Fabyanske, Westra & Hart, P.A. 800 LaSalle Ave. #1900 Minneapolis, MN 55402 Phone: (612) 338-0115 Facsimile: (612) 338-3857

Michael A. Pysno, Esq. RBC Dain Rauscher Incorporated 60 South Sixth Street Minneapolis, MN 55402 Phone: (612) 371-7766 Facsimile: (612) 371-7611	George Vasios Securities & Exchange Commission Midwest Regional Office Attn: Bankruptcy Section 175 W. Jackson Blvd. Suite 900 Chicago, IL 60604
Peter D. Wolfson, Esq. Holly S. Falkowitz, Esq. Sonnenschein Nath & Rosenthal 1221 Avenue of the Americas, 24 <sup>th</sup> Floor New York, NY 10020 Phone: (212) 768-6700 Facsimile: (212) 768-6800 E-mail: pwolfson@sonnenschein.com E-mail: hfalkowitz@sonnenschein.com	Affiliated Financial Services, Inc. c/o Barry L. Wilkie Jones & Keller, P.C. 1625 Broadway, Suite 1600 Denver, CO 80202 Phone: (303) 573-1600 Facsimile: (303) 893-6506
E*Trade Securities, LLC c/o William P. Wassweiler Rider Bennett, LLP 33 South Sixth Street, Suite 4900 Minneapolis, MN 55402-3716 Phone: (612) 340-7973	Joe Dansky Bisys Group 90 Park Avenue, 10 <sup>th</sup> Floor New York, NY 10016
Christopher J. Barber Stephen O'Donnell Elissa Isaacs Piper Marbury Rudnick & Wolfe 203 North LaSalle Street Suite 1800 Chicago, IL 60601-1293 Phone: (312) 368-4000 Facsimile: (312) 236-7516	E*Trade Securities Corporation, Inc. c/o Monica L. Clark Dorsey & Whitney LLP 50 South Sixth Street Suite 1500 Minneapolis, MN 55402-1498 Telephone: (612) 340-2600 Facsimile: (612) 340-2643
E*Trade Securities LLC c/o Edward M. McDonald Christopher P. Hall Neil E. Herman, Esq. Morgan, Lewis & Bockius LLP 101 Park Avenue New York, NY 10178-0060 Telephone: (212) 309-6000 Facsimile: (212) 309-6273 E-Mail: nherman@morganlewis.com	Stephen M. Case Revocable Trust c/o John C. Thomas, Esq. Todd C. Pearson, Esq. Dorsey & Whitney LLP Suite 1500 50 South Sixth Street Minneapolis, MN 55402-1498 Telephone: (612) 340-2600 Facsimile: (612) 340-2643

Investment Centers of America c/o Diane Rajt Associate General Counsel Jackson National Life Insurance Company 1 Corporate Way Lansing, MI 48951	Mr. Richard Kirby Preston Gates Ellis & Rouvelas Meeds LLP 1735 New York Ave. NW Suite 500 Washington, DC 20006-5209 Phone: (202) 628-1700 Facsimile: (202) 331-1024
William C. Burnside William C. Burnside & Co., Inc. 111 N. Vermillion P.O. Box 507 Danville, IL 61834-0507 Phone: (217) 443-3310	E*Trade Securities LLC c/o Richard C. St. John, Esq. Munger, Tolles & Olson LLP 355 S. Grand Ave. 35 <sup>th</sup> Floor Los Angeles, CA 90071-1560 E-Mail: stjohnr@mto.com
Mr. David Ebel Schwabe Williamson & Wyatt 1420 Fifth Avenue, Suite 3010 Seattle, WA 98101 Phone: (206) 407-1525 E-mail: debel@schwabe.com	Investment Centers of America c/o Gerry Gunderson SVP, CCO and General Counsel Investment Centers of America, Inc. 212 North Fourth Street Bismarck, ND 58501 Phone: (701) 250-3203
Teresa J. Kimker Halleland Lewis Nilan & Johnson 600 U.S. Bank Plaza South 220 South Sixth Street Minneapolis, MN 55402-4501 Phone: (612) 204-4175 E-mail: tkimker@halleland.com	Primeshares Attn: Sid J. Garabato 60 Madison Ave. 2nd Floor New York, NY 10011-1600 Phone: (212) 889-5714 Facsimile: (212) 889-2232 E-mail: ksync@primeshares.com